

**Top Secret**

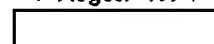
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**Top Secret**

1 August 1974



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DIA review(s) completed.

**No 631**

State Dept. review completed



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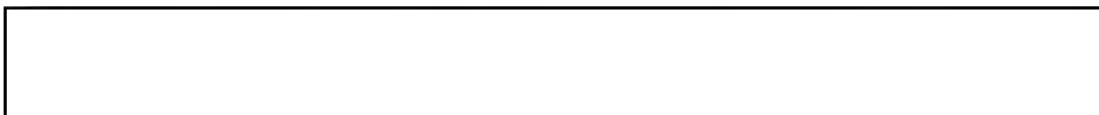
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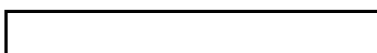
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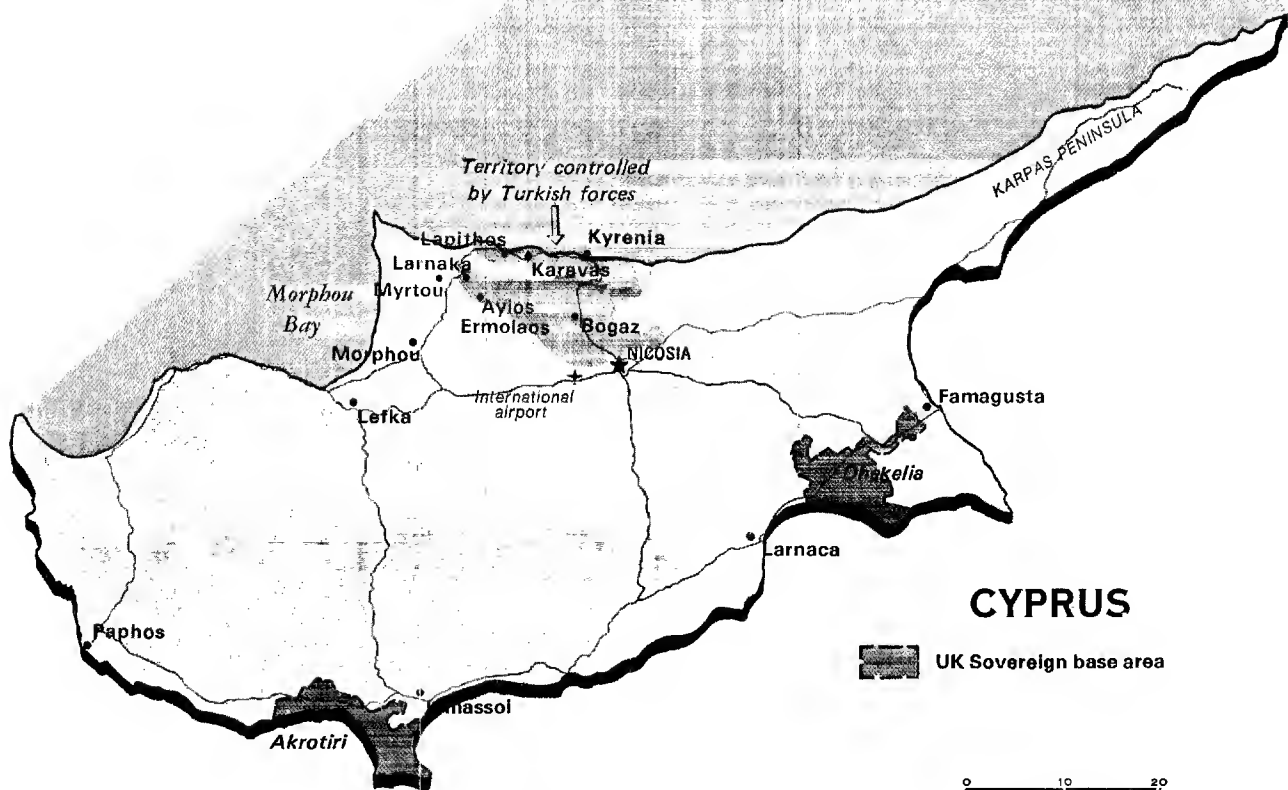
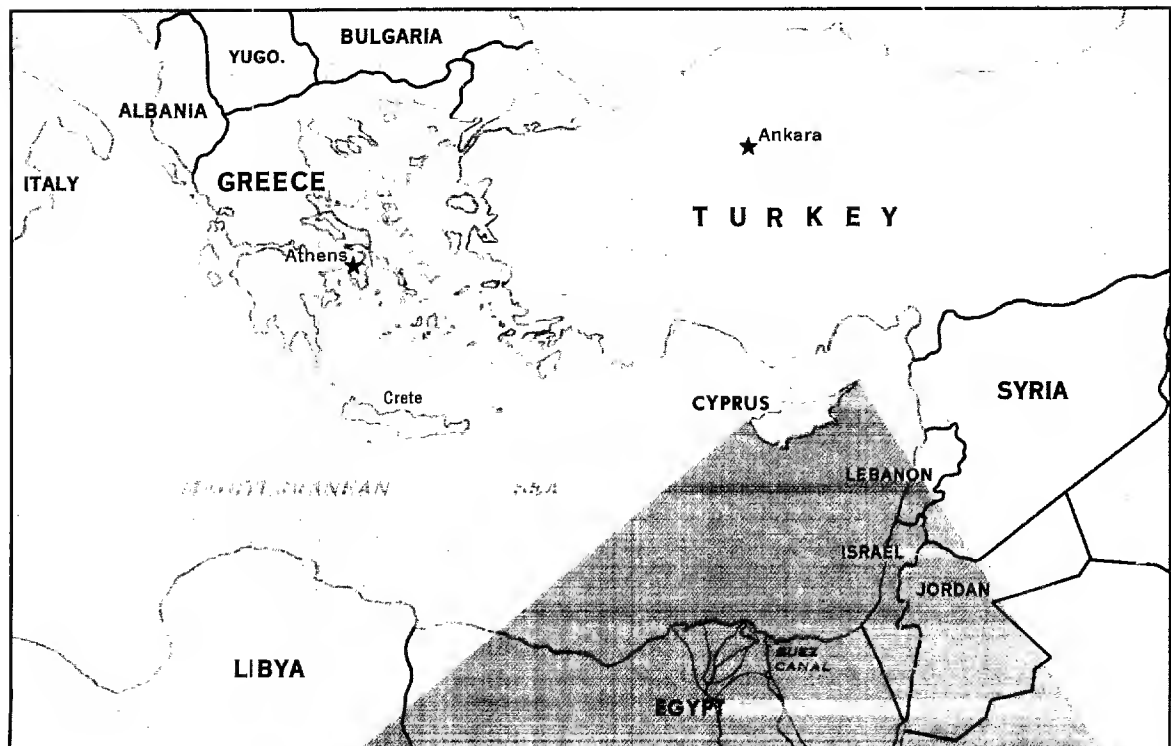


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MALAYSIA: Parliament dissolved; elections expected late this month. (Page 16)



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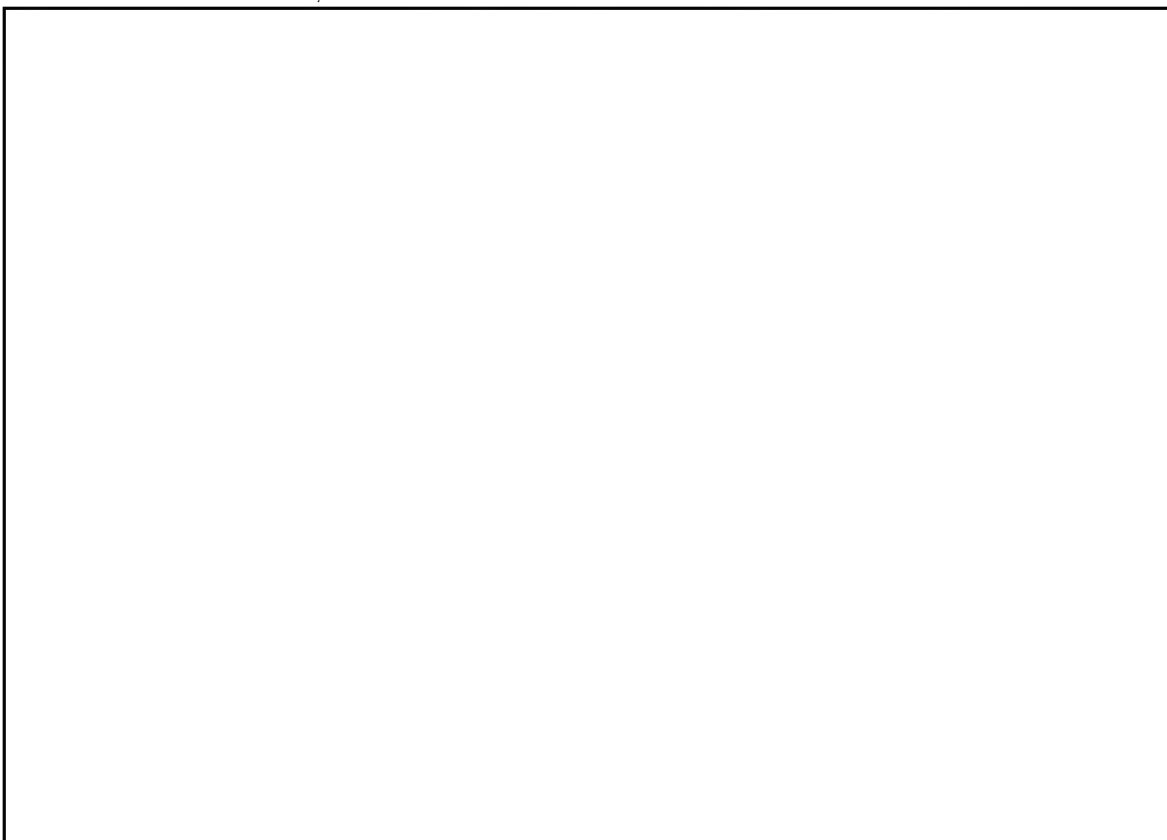
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CYPRUS

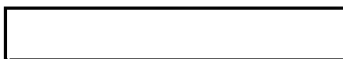
The countries directly involved in the Cyprus imbroglio have welcomed the cease-fire agreement signed in Geneva, but Greece's relief at averting a war with Turkey is tempered by the realization that Ankara has won far-reaching concessions.



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The US embassy in Ankara believes that Turks of all political views are united in their intention to squeeze all possible gains from the situation. Prime Minister Ecevit is seen as very much strengthened at home, at least in the short run. The embassy notes that, while there are undoubtedly shades of differences between the civilian government and the military, there are no conflicts of serious proportion between the two. Moreover, the embassy does not believe the military are dragging along a reluctant Ecevit.

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In the embassy's view, Ankara wants to keep indefinitely a secure territorial base on Cyprus that includes a portion of the northern seacoast. This base not only will increase Turkey's bargaining chips in future negotiations, but also will put it in a stronger position to ensure a double enosis if efforts are made in the future to link Cyprus with Greece.

Moreover, that portion of Cyprus commands approaches to three major southern ports, which Ankara is determined to shield from future threats by Greeks on Cyprus. Beyond this general strategic thinking, the embassy does not believe that the Turkish leadership is certain what it wants for a long-term settlement, except to:

- bar a return to the 1960 London-Zurich arrangement;
- give Turkish Cypriots greater autonomy;
- prevent, if possible, the return to power of Archbishop Makarios.

In Cyprus, President Clerides welcomed the Geneva accord as a step toward peace, but expressed dismay at the concessions asked of Greek Cypriots. He accused the Turks of intransigence, but noted that the longer the fighting went on, the more difficult it would have been to arrive at a peaceful solution.

The accord was well received by Turkish Cypriots. They have already moved their administration from Nicosia to Kyrenia, which reportedly will serve as the "capital" of the Turkish Cypriot sector. Turkish Cypriot leader Rauf Denktash told a US embassy official that a cantonal arrangement might emerge from the present situation, with a federal government based on an amended version of the 1960 constitution. He foresaw a continuation of the arrangement for a Greek Cypriot president and a Turkish Cypriot vice president, but the Turkish canton would enjoy almost complete autonomy. Not all Turkish Cypriots would be required to live in the canton, according to Denktash, but those outside--including Greek Cypriots--would have freedom of movement throughout the island.

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In London, Archbishop Makarios gave guarded approval to the agreement, but criticized the vagueness of the clause dealing with the Turkish troop withdrawal.

Last night in the UN Security Council, the USSR vetoed a draft resolution on the role of the UN peace-keeping force in Cyprus. Secretary General Waldheim had been unwilling to authorize, without a clear mandate from the Security Council, the expanded responsibilities for the UN forces called for in the agreement reached earlier this week in Geneva. Under the accord, UN forces would patrol a buffer zone between the Turkish forces and the Cypriot National Guard, protect the Turkish enclaves within UN security zones, if necessary, and assume police responsibilities in mixed villages. The Soviets' veto does not affect the continuation of the UN force under its existing mandate, which in June was extended for six months.

Soviet UN delegate Malik, who returned from Moscow during the session, maintained that "a new function" was being asked of the UN troops and that he lacked any instructions from Moscow to concur in such arrangements. No date was set for a resumption of consideration of the issue; Malik today begins a one-month term as president of the Security Council.

UN outposts reported several cease-fire violations yesterday as Turkish forces continued to attack Greek-held pockets of resistance northwest of Nicosia. The Turks apparently forced Greek National Guard units to withdraw from Karavas and Lapithos. Turkish forces also shelled Larnaka, forcing a UN patrol to withdraw from the town.

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The US embassy in Nicosia said yesterday that the situation in Kyrenia was still tense. Individual snipers continued firing periodically, and Turkish patrols were making house-to-house searches to eliminate them. Four Turkish vessels--including a cruise ship--were observed in the morning immediately off Kyrenia, but no unloading was under way. The US defense attaché reported, however, that six small landing craft were unloading cargo late in the morning.

US embassy officials also reported yesterday that virtually all of the troops, tanks, and wheeled vehicles previously concentrated around the Turkish military headquarters at Bogaz have disappeared. They assume that the Turks pushed these forces outward to have the widest possible perimeter before the UN inspection of the cease-fire lines.

The UN force commander told the US defense attaché yesterday that he anticipates problems in establishing the lines, indicating that both sides probably will exaggerate their claims. They will also have to work out a definition of what constitutes "control of real estate." The commander acknowledged that the UN does not have reliable data and expects to have difficulty in working out the lines east of Kyrenia, the mountain area along the Kyrenia range, and the western area from Myrtou to Ayios Ermolaos. He said that the problems will have to be resolved from the ground rather than by aerial surveillance, and it probably would take several days to sort out.



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GREECE

The Greek left, which broke up into several factions following the military coup of 1967, is apparently divided over the posture to adopt toward the Karamanlis government. Representatives of various leftist groups meeting on July 25-26 failed to agree on a minimum program of action. They did agree to meet periodically to discuss common problems and drafted a declaration demanding participation in the government.

Subsequently, members of Andreas Papandreou's Panhellenic Liberation Movement met separately on July 27-28 to determine what course of action to recommend to Papandreou--the bete noire of the military and the right in Greece--when he returns to Greece. The movement split over whether to urge a moderate policy pending a resolution of the Cyprus problem or to demand the present government's removal.

Papandreou charged on July 23 that the Cyprus coup and the transfer of power to civilians in Athens were the work of NATO. In another statement of July 29, Papandreou said he is preparing to transform his organization into a political party to the left of Scandinavian socialist parties. Papandreou is reported due to arrive in Greece within a few days.

A close friend of Papandreou told a US embassy official in Athens that Papandreou has communicated extensively by telephone with former Center Union politicians and others in an effort to build support. He anticipates, however, that Papandreou will maintain a low profile, initially out of concern for his safety and on the advice of his colleagues who remained in Greece throughout the period of military rule.

The traditional Communist left may well adopt a more moderate policy toward the Karamanlis government than Papandreou's movement will, at least for the time being.

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The Greek Prime Minister, for his part, has begun consolidating his hold in Athens by clearing the top levels of the civil service of individuals appointed by the military regimes.

[REDACTED]

retired Colonel

Stamatelopoulos--an active participant in the 1967 coup who still has a following within the army--has issued a public statement calling for a purge of all those in the military responsible for the Cypriot coup.

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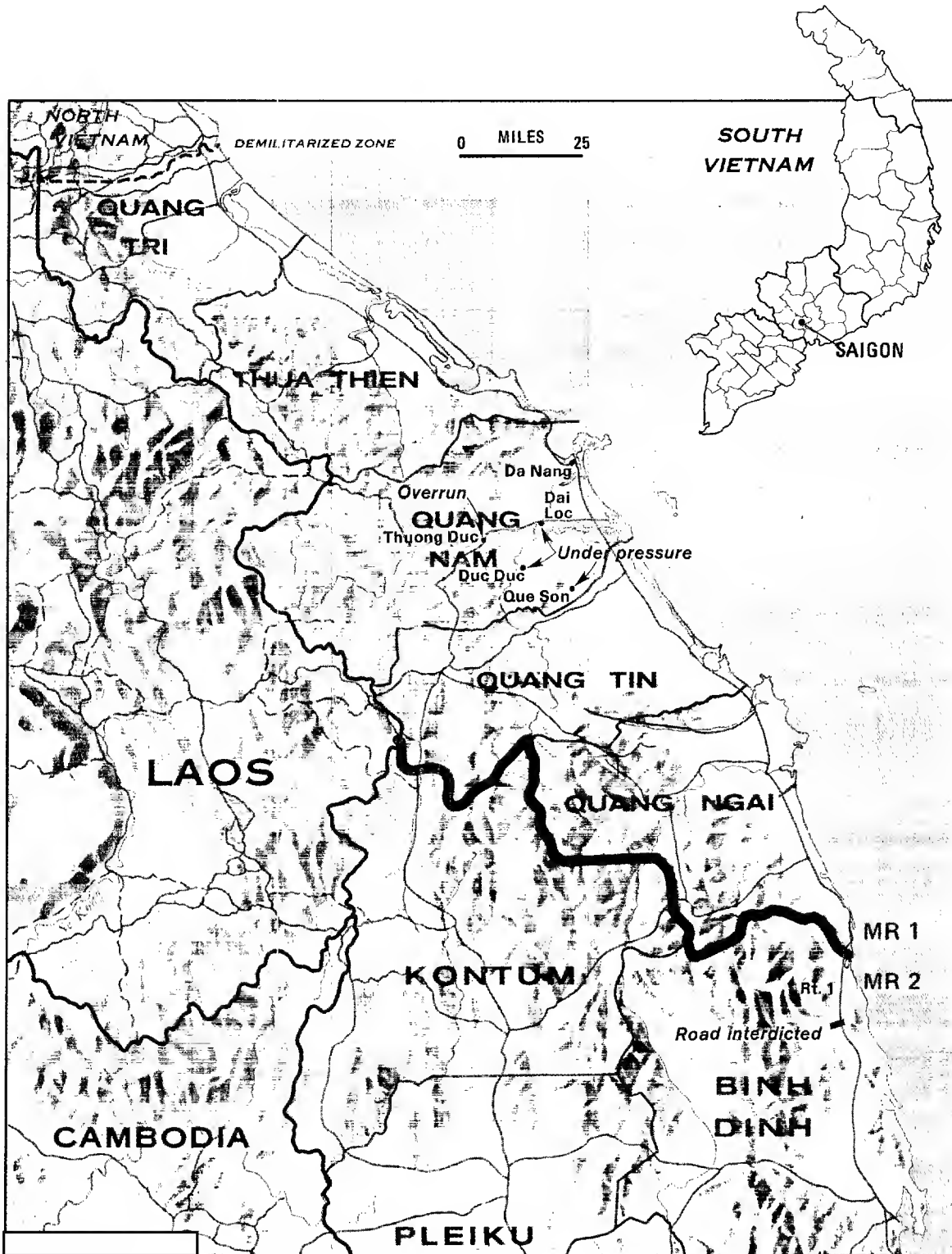
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### UNITED KINGDOM

Secretary of Industry Anthony Wedgewood-Benn told Parliament yesterday that the government intends to nationalize the bulk of the British shipbuilding, ship-repairing, and marine engineering industries. Details will be spelled out in a White Paper later this year, but Benn said that the nationalized firms would be compensated. All foreign firms, including the American company, Marathon Shipbuilding, are excluded from the plan.

The present makeup of Parliament precludes enactment of this legislation. Just last month the Liberals and Conservatives joined forces to pass by 21 votes a resolution deploring Labor Party proposals to nationalize industry. Benn's announcement in effect becomes a part of the Labor Party platform for the election that Labor is expected to call for October.

Shipbuilding activity has picked up during the past year, but the industry suffers from numerous chronic problems. Undercapitalization, outdated equipment, weak management, and labor troubles have combined to leave the British with a shrinking piece of this increasingly competitive market. Benn argued that only nationalization could solve these problems, because private investment has been unable or unwilling to do the job. In the past, Benn has advocated control of the industry through a National Shipbuilding Corporation, and this feature probably will be included in the government's plan.



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SOUTH VIETNAM

Fighting has increased significantly in the northern coastal areas of South Vietnam since the arrival of good weather in May.

In rice-rich and heavily populated Quang Nam Province, which includes the nation's second largest city of Da Nang, the fighting has centered around district towns on the periphery of Communist-controlled territory. The most remote of these, Thuong Duc, was on the verge of being overrun by the Communists yesterday. If it fell, it would be the first district seat lost in Military Region 1 since the cease-fire. Three other district towns, Duc Duc, Dai Loc, and Que Son, are under heavy pressure.

In addition to using local forces, the Communists have committed parts of two regiments of their 2nd Division to the fighting. Communist ground troops have been supported with artillery and--to a lesser extent--armor.

The South Vietnamese, meanwhile, have reinforced elements of their 3rd Division in Quang Nam with 2nd Division and Ranger units and have moved in a regiment of the crack 1st Division from Thua Thien Province. These units have been assisted by the local territorial forces that are rated among the best in Military Region 1.

In Binh Dinh Province, the second largest province both in territory and population, elements of the Communist 3rd Division have moved down from the mountains, launched attacks on government outposts, and blocked a six-mile segment of Route 1--the major north-south highway. The Communists have also grabbed several villages in the coastal region that they have long tried to control. These developments could force the return of the South Vietnamese 22nd Division from the highlands--a move that would significantly weaken highland defenses.

Throughout South Vietnam the government for the most part controls the population and food producing areas, and the Communists hold large uninhabited areas in the mountains. The current fighting, in large measure, is

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over control of the populated farming areas bordering the Communist zone. Since the January 1973 cease-fire, the government has steadily extended its control in this area and has been resettling refugees in the newly claimed territory.

Both sides already have suffered heavy losses, and more sharp fighting in the northern provinces could be in store until early fall when the weather deteriorates. The government may be forced to give up some of the territory taken after the cease-fire and, in Quang Nam, the Communists may overrun more of the threatened district towns. They can also be expected to rocket Da Nang periodically and to try to cut key highways.

The Communists seem to be in fairly good shape to sustain this type of action. In the past six months, approximately 17,000 troops have been infiltrated to the central coast, enabling the North Vietnamese to rebuild combat units and establish a sizable pool of replacements. Moreover, the Communists are moving large quantities of materiel into these areas and apparently can afford to expend ammunition more freely than government forces, which are experiencing shortages.

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PERU

The government's expropriation last week of the country's major newspapers has sparked anti-military demonstrations in Lima. While not a serious threat to President Velasco's regime, the disturbances could spread to other cities, particularly Arequipa, Peru's second city and the traditional center of anti-military sentiment.

The demonstrations reportedly began in Lima's middle-class suburbs, apparently led by students, and included supporters of ex-president Belaunde. In addition to some looting and burning, the Soviet embassy reportedly was attacked during the night of July 30. The authorities reportedly have detained some 500 persons. Domestic press reports have emphasized the "luxurious" background of the demonstrators in an apparent government effort to minimize their importance.

Although students have consistently opposed the six-year-old regime, participation by members of the middle class, at least some of whom apparently support Belaunde openly, is unusual. Continued opposition to the government's authoritarian moves is likely, but no serious threat to Velasco could develop without substantial involvement by anti-government labor groups and the American Popular Revolutionary Alliance, the still-important, mass-based political movement. Even if the disturbances continue and spread, however, President Velasco is unlikely to reverse the increasingly radical character of his regime. [REDACTED]

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MEXICO

President Echeverria's three-week South American trip, which ended yesterday, put him on record again as a staunch defender of the underdeveloped and developing nations. At each stop on his seven-nation tour he firmly planted Mexico in the Third World camp, decried big-power "economic colonialism," called for an end to Cuba's isolation in the hemisphere, and urged Latin nations to band together in defense of their common interests and goals.

Echeverria's chief talking point was a proposal to establish an exclusively Latin American organization for economic consultation and coordination. This idea, which some Latin press commentators noted was not Echeverria's, was received cordially but did not draw any commitments. The new organization's functions, ranging from defense of prices for raw materials to coordination of policies on foreign capital and technology, would have a protectionist, self-assertive cast that may have an appeal for some Latin governments. Rivalries for influence in the hemisphere, however, dim the prospects for its adoption.

Echeverria made no secret that he would heartily welcome Cuba's official return to the Latin family of nations. He would like to be in the vanguard of a reintegration of Cuba movement if only to show his independence of the US and to demonstrate that Mexico's policy toward Cuba was right all along. Rumors that Echeverria would visit Cuba at the end of the trip proved false, but it seems virtually certain that he will do so in the near future.



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IRAN-AFGHANISTAN

Major improvements in political and economic relations are likely to follow Tehran's signing of an aid protocol with Kabul last week. The agreement opens the door to unprecedented project assistance, estimated at \$1.5 billion to over \$2 billion. Implementation of such a large agreement will take considerable time. It would dwarf the aid the USSR has already extended to Afghanistan and could lead to a lessening of Kabul's reliance on Moscow for economic assistance.

The Shah, who is always concerned about Soviet involvement with Iran's neighbors, is considering projects that would tie the Afghan economy closer to Iran's. Thus, the agreement includes plans for rail and road links with Iran, construction in Afghanistan of cement, fruit processing, and other plants that could supply the Iranian market, and a joint export development bank. Tehran also may build dams and irrigation projects on the Helmand River; distribution of the Helmand's waters has long been a thorny issue between the two countries.

While the agreement has been warmly received in Tehran and Kabul, it is likely to lead to recriminations from Moscow. The Soviets may well accuse President Daoud of succumbing to the Shah's Western-inspired plots to undermine Afghan-Soviet relations. Moscow is unlikely, however, to alter significantly its economic aid deliveries, which have averaged \$10-15 million annually over the past several years. In any event, the Afghans will follow through with the Iranian agreement, which they see as an unanticipated boon to their economic development effort.

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MALAYSIA

The dissolution of parliament on July 30 opens the way for national elections, probably on August 24.

At stake are the 154 seats in the lower house of parliament. There will also be elections for state assemblies in 12 of the country's 13 states.

The National Front, a new confederation of nine political parties reflecting Malaysia's racial diversity, is likely to sweep the polls. Its member parties held 118 seats in the outgoing parliament, and they will probably improve their strength in the new one.

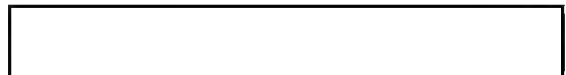
Although not required to hold elections until 1976, the government decided to take advantage of what it sees as a new peak of popularity. Prosperity is at an all-time high, but there is always the risk of a downturn because of Malaysia's dependence on exports. The government believes that its position has also been strengthened by its recent successes against Communist insurgents in the East Malaysia state of Sarawak, and that this will outweigh the public's concern with the expansion of Communist activities in peninsular Malaysia.

Malaysian authorities hope that a short campaign, plus restrictions on discussion of racially sensitive subjects, will prevent a repetition of the rioting that followed the last elections in 1969. [REDACTED]

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